DPS-143

FEBRUARY 1975



# DEMAND AND PRICE Situation

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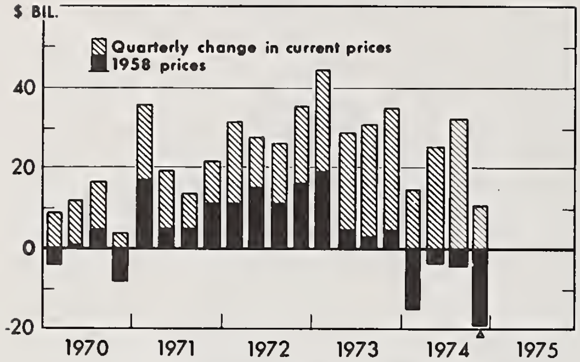
U.S. DEPARTMENT OF AGRICULTURE

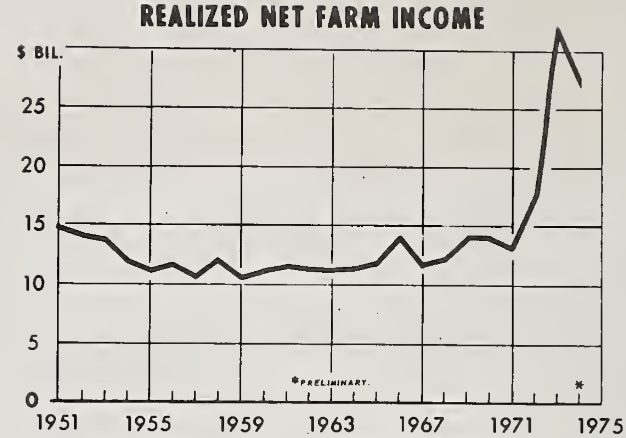
## GROSS NATIONAL PRODUCT*




* CHANGE FROM PREVIOUS QUARTER SEASONALLY ADJUSTED ANNUAL RATE BASED ON DATA OF DEPARTMENT OF COMMERCE △ PRELIMINARY.

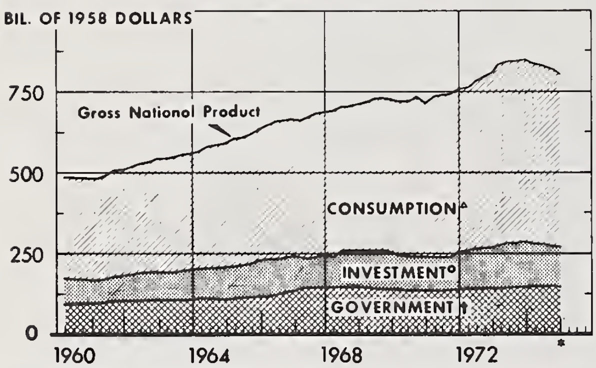
USDA NEG. ERS 6998 - 75 (1)

## REALIZED NET FARM INCOME




U.S. DEPARTMENT OF AGRICULTURE NEG. ERS 461 - 75 (2) ECONOMIC RESEARCH SERVICE

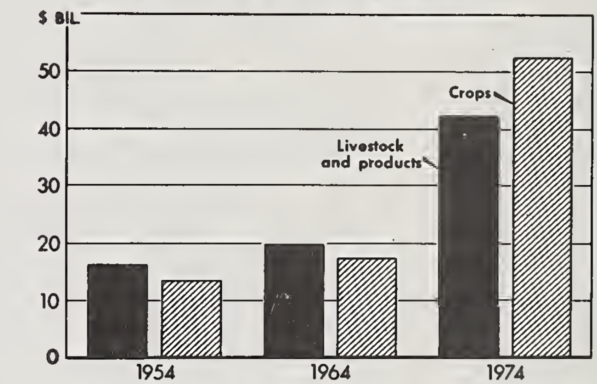
## MAJOR SOURCES OF DEMAND




QUARTERLY DATA AT SEASONALLY ADJUSTED ANNUAL RATES. * PRELIMINARY. △ PERSONAL EXPENDITURES.
† GOVERNMENT PURCHASES OF GOODS AND SERVICES. ° GROSS PRIVATE DOMESTIC INVESTMENT PLUS NET EXPORTS.

USDA NEG. ERS 86 - 75 (1)

## RECEIPTS FROM FARM MARKETINGS



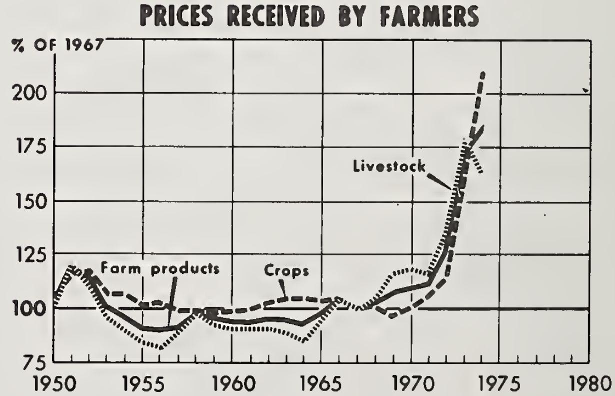

USDA NEG. ERS 947 - 75 (1)

## UNEMPLOYMENT AND SAVINGS RATES*


* BASED ON SEASONALLY ADJUSTED DATA OF DEPARTMENTS OF COMMERCE AND LABOR.
△ PERSONAL SAVING AS A PERCENTAGE OF DISPOSABLE PERSONAL INCOME ○ PRELIMINARY

USDA NEG. ERS 8518 - 75 (1)

## PRICES RECEIVED BY FARMERS




USDA NEG ERS 7878 75 (2)

# THE DEMAND AND PRICE SITUATION

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Approved by
Outlook and Situation Board
and Summary released
February 18, 1975



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## SUMMARY


The outlook for U.S. agriculture is surrounded with the pessimism generated by the poor crop production of 1974 and the optimism of new planting intentions. Several possibilities for 1975 emerge when the key supply and demand factors in the agricultural scene are examined.

The level of 1975 crop production is the single most important factor but it is a two-edged sword. If record crops are harvested, the question of how well the U.S. can meet the needs of domestic and foreign markets is academic, unless significant shortfalls occur in the rest of the world. However, the accomodation of markets does not ensure a profitable return to the producer. Significant buildups in stocks are likely to mean lower price levels at a time when production costs are soaring. The result may be an uncomfortable squeeze, particularly upon the grain producer. On the other hand, a repeat of 1974's reduced crop output, coupled with the lower carryin stocks, would mean sharply higher farm prices. The impact would be felt in sharply higher food prices, renewed inflationary pressures, and continued contraction in the livestock industry.

The continued depressed level of activity in foreign economies has softened demand for U.S. commodities, but this trend will be partially offset by the announced increase in the P.L. 480 Program of $600 million to a total of $1.6 billion. Shifts in commodity purchases by the USSR and the People's Republic of China have cast additional uncertainties on the export outlook, leading to unanswered questions. Will the weakening level of export activity continue into the new crop year or will a turnaround occur? What is the probable level of world grain production and what would be the impact of another worldwide shortfall in grain production?

The domestic economy also continues to slide, with unemployment rising dramatically and inflation barely breaking below the double-digit level. Real purchasing power continues to be eroded. This is the climate in which sharp adjustments in the livestock sector are putting more beef on the market while hog and poultry producers are cutting back. Will the general economy turn around in mid-1975 and generate the demand to push farmer returns up at a faster rate than production expenses? If the turnaround coincided with a repeat of the 1974 grain production levels, the inflationary food price spiral would begin again and higher grain prices would

Table 1.--Selected measures of economic activity

| Item | Unit | Year 1973 | Year 1974 1/ | 1973 | | | 1974 | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | II | III | IV | II | III | IV 1/ |
| Gross national product | Bil. dol. | 1,294.9 | 1,396.7 | 1,277.9 | 1,308.9 | 1,344.0 | 1,383.8 | 1,416.3 | 1,428.0 |
| Disposable personal income | Bil. dol. | 903.7 | 979.7 | 892.1 | 913.9 | 939.4 | 966.5 | 993.1 | 1,008.7 |
| Personal consumption expenditures | Bil. dol. | 805.2 | 877.0 | 799.0 | 816.3 | 823.9 | 869.1 | 901.3 | 896.8 |
| Food spending (excluding alcoholic beverages) | Bil. dol. | 143.6 | 164.6 | 139.7 | 147.7 | 152.4 | 160.8 | 167.6 | 172.5 |
| Implicit price deflator for GNP | 1958=100 | 154.3 | 170.1 | 152.6 | 155.7 | 158.9 | 167.3 | 172.1 | 177.7 |
| Unemployment rate 2/ | Percent | 4.9 | 5.6 | 4.9 | 4.7 | 4.7 | 5.1 | 5.5 | 6.5 |
| Cash receipts from farm marketings | Bil. dol. | 88.6 | 95.0 | 84.8 | 93.6 | 98.5 | 91.3 | 94.5 | 96.2 |
| Nonmoney and other farm income | Bil. dol. | 8.4 | 7.0 | 8.4 | 8.2 | 8.2 | 7.1 | 7.6 | 6.3 |
| Realized gross farm income | Bil. dol. | 97.0 | 102.0 | 93.2 | 101.8 | 106.7 | 98.4 | 102.1 | 102.5 |
| Farm production expenses | Bil. dol. | 64.7 | 74.8 | 62.9 | 67.0 | 69.0 | 74.5 | 76.5 | 76.1 |
| Farmers' realized net farm income | Bil. dol. | 32.2 | 27.2 | 30.3 | 34.8 | 37.7 | 23.9 | 25.6 | 26.4 |
| Agricultural exports 3/ | Bil. dol. | 17.7 | 22.0 | 4.0 | 4.2 | 5.8 | 5.5 | 4.5 | 6.2 |
| Agricultural imports 3/ | Bil. dol. | 8.4 | 10.2 | 2.1 | 2.0 | 2.3 | 2.6 | 2.5 | 2.5 |
| Volume of farm marketings | 1967=100 | 116 | 116 | 87 | 109 | 157 | 93 | 116 | 149 |
| Livestock and products | do. | 106 | 107 | 104 | 100 | 113 | 107 | 105 | 109 |
| Crops | do. | 130 | 128 | 65 | 121 | 215 | 74 | 132 | 194 |
| Prices received by farmers 4/ | do. | 172 | 183 | 164 | 191 | 183 | 174 | 178 | 181 |
| Livestock and products | do. | 179 | 163 | 171 | 199 | 183 | 156 | 156 | 154 |
| Crops | do. | 164 | 212 | 156 | 180 | 185 | 202 | 210 | 221 |
| Prices paid by farmers 4/ 5/ | do. | 145 | 168 | 143 | 149 | 152 | 165 | 172 | 178 |
| Wholesale price index, all commodities 4/ | do. | 134.7 | 160.1 | 133.2 | 138.7 | 139.9 | 154.5 | 165.4 | 171.2 |
| Consumer price index, all items 4/ | do. | 133.1 | 147.7 | 131.5 | 134.4 | 137.6 | 145.4 | 149.9 | 154.2 |
| All food | do. | 141.4 | 161.7 | 138.1 | 146.2 | 149.9 | 159.5 | 162.8 | 167.9 |
| Food at home | do. | 141.4 | 162.4 | 138.0 | 147.1 | 150.1 | 160.2 | 163.0 | 168.4 |

1/ Preliminary. 2/ Unemployment as a percent of the civilian labor force. 3/ Actual values, not seasonally adjusted annual rates. 4/ Not seasonally adjusted. 5/ Including interest, taxes, and wage rates.

Quarterly data seasonally adjusted except as noted.

Departments of Agriculture, Commerce, and Labor.

force a continued reduction in livestock inventories and output. If the economy fails to turn around, domestic demand could weaken some in the face of large supplies and rising costs. The resulting cost-price squeeze on agriculture could force additional readjustments.

The livestock sector is responding to current developments but the effects could continue for some years. Pork and poultry producers have already made sharp reductions in potential production. The cattle industry is also slowing the rate of growth in the cattle herd. A record grain crop would permit producers to think more in terms of expanding production instead of contraction and ensure good supplies of cattle to serve as a source of meat for consumers and as an outlet for feed grains. A repeat of the 1974 crops would mean more beef in 1975 but a sharp reduction in the capacity to produce beef in coming years. This could mean less beef available and higher retail prices if the economy and thus demand began to make significant gains in 1976. It would also mean a reduced potential demand for the 1976/77 grain crops.

The longer the current pattern continues the greater is the potential for the livestock industry, the domestic economy, and the level of grain production to become out of phase when the situation is reversed. Grain production can turn around in 1 year but the ability of the livestock industry to turn around is limited by the productive potential inherent in the existing inventories.

The full impacts of the initial adjustments to the reduced 1974 crop production levels are now beginning to be felt. The above elements will modify and accentuate the course of future developments in the agricultural sector for 1975. However, it is clear that agriculture will play a crucial role in moderating or feeding inflationary pressures in 1975.

Realized net farm income in 1974 was $27.2 billion, down about $5 billion from 1973 but still the second best on record. The $6½ billion increase in cash receipts was more than offset by a $10 billion surge in production expenses and a $2 billion decline in government payments.

Farm income prospects for 1975 have weakened and a sizable downturn in net farm income in 1975 may be in prospect. Prices for major crops have slumped in recent months and production expenses have continued their persistent rise. However, the level of 1975 crop production will be the primary determinant of the size of the drop in income for 1975.

Retail food prices are likely to continue generally upward in the coming months with an increase of 2 to 3 percent in the first quarter and about 3 percent in the second. Prices in all major food categories are expected to rise significantly by midyear with most of the increase accounted for by crop-related food items during the first quarter, followed by somewhat sharper increases for red meats in the second quarter.

Feed grain disappearance in October-December 1974 totaled 55.6 million (short) tons, 18 percent less than a year earlier. Both domestic disappearance at 46.3 million tons and exports at 9.3 million tons were down by 18 percent. However, reductions in feed grain usage must continue in order to stretch supplies until the 1975 crops are harvested next summer and fall. Total feed grain supplies for 1974/75 are 187.8 million tons, 21 percent smaller than last season.

Unfavorable feed cost-product price relationships have caused sharp reductions in the number of cattle on feed over the past year—to 25 percent fewer on January 1 than a year earlier—and have forced hog producers to curtail production. Hog farmers have indicated plans to reduce December 1974—May 1975 sow farrowings by 15 percent. This would produce the smallest spring pig crop since 1935. Poultry producers have already cut their output. Broiler production in the fourth quarter of 1974 dropped about 8 percent below a year ago, egg production was down 3 percent, and pork production recently began to run below a year earlier. These reductions in production have not yet resulted in much price strength for the products, and feed cost-price relationships remain below those that have encouraged larger output in the past. In spite of the reduction in cattle feeding, beef production is running ahead of a year ago because of heavy slaughter of cattle off grass, and this is expected to continue throughout most of 1975. Recently, slaughter cattle prices have declined a little more rapidly than corn prices.

This year's wheat market is characterized by continued strong export demand and a reduction in domestic use for feed. It now appears that exports will total 1.1 billion bushels, not much below the record of 1972/73, and yearend stocks are expected to hold near last year's low level of around 250 million bushels. But with a more orderly export scene and the experience gained last year of operating with minimum stocks, the market has been far less volatile.

Soybean supplies for the current marketing year total 1.4 billion bushels, nearly 13 percent below 1973/74. Supplies consist of the 1974 soybean crop of 1,233 million bushels and carryover stocks last September 1 of 171 million. Summer drought and early frosts reduced yields in 1974 to 23.5 bushels, 4.2 bushels below 1973. The 1974/75 supply-demand balance is not as tight as predicted last fall, due to the slackened demand for soybean products. Soybean carryover stocks on September 1, 1975, are now estimated at around 100 million bushels, down sharply from last year. U.S. average price received by farmers for soybeans dropped from over $8 per bushel last October to $7 in December and were below $6 in early February.

Cotton farmers indicate intentions to plant 9½ million acres of upland cotton in 1975. Weak demand and relatively low cotton prices in relation to competing crops, particularly grain sorghum in the Southwest and soybeans in the Southeast and Delta, are sharply reducing acreage prospects. If prospects

are realized, cotton acreage will be nearly 4½ million acres below the 1974 level and the second smallest plantings since 1871. However, with prospective stocks next summer of over 5 million bales, supplies should be adequate for domestic and export needs during 1975/76.

The American economy is in its deepest postwar recession. In the wake of four consecutive quarters of declining output, unemployment reached 8.2 percent in January 1975. Real consumption expenditures declined in 1974 for the first peacetime year since the Great Depression. While developments in the first half of 1974 reflected tightening supplies of key materials and generally strong demand, recent evidence suggests that falling demand is exerting considerable downward pressure on economic activity. Consequently, the economic scene is assuming more of the characteristics of previous recessions which were initiated by insufficient demand.

The first half of 1974 was a period of falling output in a few industries and extremely high rates of inflation. It appeared that the economic downtown would be of short duration and limited to those industries most directly affected by tightening energy supplies. This appraisal, which undoubtedly underestimated the importance of cheap energy to the general health of the economy, was manifested in the surprising strength of employment and business investment through midyear. Despite the ravaging of consumer purchasing power by inflation, real consumption expenditures continued to increase through the third quarter and the saving rate steadily declined.

The third quarter of 1974 brought solid indications of a business reaction to increasing costs and a downward revision of future demand expectations. Business fixed investment weakened, production declined, and unemployment increased sharply. A recessionary spiral became evident in full force in the fourth quarter when real consumer purchases, real business fixed investment, output, and employment recorded dramatic declines.

Induced by the declines which have already occurred, the first half of 1975 will be a period of falling demand and output, rising unemployment, lower interest rates, and slower inflation. By midyear, the economy may be responsive to stimulative government measures and the second half of 1975 could bring indications of an improvement in the economic outlook. But the quadrupling of oil prices will adversely affect future economic performance; high energy costs are a new element in the economic environment which will hinder recovery and put economic policy to its severest test in the postwar period.

The current agricultural outlook is dominated by poorer-than-expected crop production in 1974 and moderated by sagging foreign and domestic economic activity, and sharp cutbacks in livestock production. The key factor in agriculture's capability to provide some price stabilization and confidence in the U.S. economy is the level of 1975 crop production and its impact on the livestock industry. This capability may be eroded by the cost squeeze on farmers if sagging grain prices, which might provide longer-term stability in food prices, fall below the sharply higher levels of production costs.

### Food Prices Advance in First Half

Retail food prices are likely to continue generally upward in the coming months with an increase of 2-3 percent in the first quarter and about 3 percent in the second. Prices in all major food categories are expected to rise significantly by midyear with most of the increase accounted for by crop-related food items during the first quarter, followed by somewhat sharper increases for red meats in the second quarter.

Much of the rise in the early months of the year will continue to be associated with higher marketing margins and the passing through of last year's higher raw-product costs for highly processed or sugar-containing items. Second quarter retail price increases are likely to be associated with rising farm prices for meat animals and seasonal price increases for fruit and vegetable crops.

### Income Prospects Weaken

Realized net farm income last year was $27.2 billion, some 15 percent short of the record $32.2 billion in 1973. However, the 1974 level was the second best on record and 55 percent higher than the 1972 income level.

Despite the drop in net income in 1974, cash receipts from marketings climbed $6½ billion to a record $95 billion. Direct government payments fell sharply to $½ billion, down from $2.6 billion in 1973. Farmers realized gross income edged over the $100 billion mark for the first time, but a $10 billion surge in production expenses more than offset the gain in income.

Farm income prospects for 1975 have weakened and a sizable downtrun in net farm income in 1975 appears likely. Prices for major crops have softened in recent months and significant increases in 1975 crop output from 1974 levels coupled with reduced utilization could lead to considerably lower net farm income. On the other hand, crop output similar to that of 1974 and high utilization could maintain farm incomes. For livestock, some slight improvement in receipts is expected over last year's poor performance.

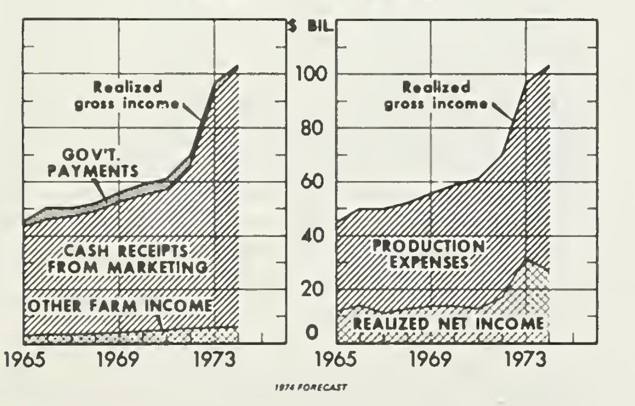
**Prices received by farmers, change from a year earlier[1]**

| Month | All crops | Livestock and products |
|---|---|---|
| | *Percent* | *Percent* |
| January 1974 | 58.8 | 24.5 |
| February | 67.9 | 17.3 |
| March | 56.5 | 2.9 |
| April | 43.4 | 0 |
| May | 30.5 | -7.1 |
| June | 17.1 | -18.4 |
| July | 25.9 | -14.4 |
| August | 9.2 | -26.6 |
| September | 15.9 | -22.2 |
| October | 26.7 | -17.6 |
| November | 23.8 | -16.4 |
| December | 8.7 | -14.5 |
| January 1975 | -1.9 | -20.7 |

[1] Percent changes computed from indices on 1967 base.

Production expenses are likely to continue their persistent rise but the 1975 prospective increase in outlays is expected to be below that experienced in 1974. Feed costs may be somewhat lower and fuel and fertilizer prices are not likely to repeat the dramatic rise of 1974.

**FARM INCOME COMPONENTS**




### Feed Grain Usage Cut Dramatically

*Feed grain* disappearance in October-December 1974 totaled 55.6 million (short) tons, 18 percent less than a year earlier. Both domestic disappearance at 46.3 million tons and exports at 9.3 million tons were down by 18 percent. However, reductions in feed grain usage must continue in order to stretch supplies until the 1975 crop harvests next summer and fall. Total feed grain supplies for 1974/75 are 187.8 million tons, 21 percent smaller than last season.

Unfavorable feed cost-livestock price relationships have sharply reduced the number of cattle on feed over the past year—to 25 percent fewer on January 1 than a year earlier—and have forced hog producers to curtail production. Hog farmers have indicated plans

**Stocks of grains**

| Grain and position | Jan. 1, 1974 | Jan. 1, 1975 | Percentage change 1975/74 |
|---|---|---|---|
| | *Million tons* | *Million tons* | *Percent* |
| TOTAL FEED GRAINS | | | |
| On farms[1] | 113 | 84 | -26 |
| Off farms[2] | 49 | 42 | -14 |
| Total | 162 | 126 | -22 |
| | *Million bushels* | *Million bushels* | *Percent* |
| WHEAT | | | |
| On farms[1] | 363 | 440 | 21 |
| Off farms[2] | 564 | 660 | 17 |
| Total | 927 | 1,100 | 19 |
| SOYBEANS | | | |
| On farms[1] | 608 | 491 | -19 |
| Off farms[2] | 553 | 505 | -9 |
| Total | 1,161 | 996 | -14 |

[1] Estimates of the Crop Reporting Board. [2] Including grain owned by Commodity Credit Corporation.

Totals may not add due to rounding. Percent changes computed using unrounded data.

to reduce December 1974-May 1975 sow farrowings by 15 percent, to the lowest on record which could mean the smallest spring pig crop since 1935. Because of relatively short time spans between feeding of grain by poultry and hog producers and selling their products, broiler production already has dropped about 8 percent below a year ago, and pork production recently began to run below a year earlier. These reductions in production have not yet resulted in much price strength for the products, and feed cost-product price relationships continue below those that have encouraged larger output in the past. In spite of the reduction in cattle feeding, beef production is running ahead of a year ago because of heavy slaughter of cattle off grass, and this pattern is expected to continue throughout most of 1975. Recently, slaughter cattle prices have declined a little more rapidly than corn prices.

**Change from a year earlier in livestock-feed price ratios**

| Year | Beef steer-corn | Hog-corn | Broiler-feed | Milk-feed |
|---|---|---|---|---|
| | *Pct.* | *Pct.* | *Pct.* | *Pct.* |
| 1973/72 | | | | |
| I | -1.1 | 15.1 | 6.7 | -13.3 |
| II | -12.6 | 1.9 | 21.4 | 17.8 |
| III | -31.8 | -13.4 | 16.1 | -19.8 |
| IV | -34.9 | -19.1 | -3.7 | -8.1 |
| 1974/73 | | | | |
| I | -43.3 | -43.3 | -15.6 | -5.1 |
| II | -38.8 | -50.5 | -23.5 | 5.8 |
| III | -35.5 | -47.1 | -30.6 | -13.8 |
| IV | -34.9 | -37.1 | -3.8 | -23.9 |

Feed prices have eased from the autumn highs due to the sharp reduction in domestic feed grain disappearance, but feed costs have been higher in relation to prices of livestock, poultry, and dairy products. There will be continued reduction in feed use by the livestock feeding industries in line with the smaller 1974/75 feed grain supply.

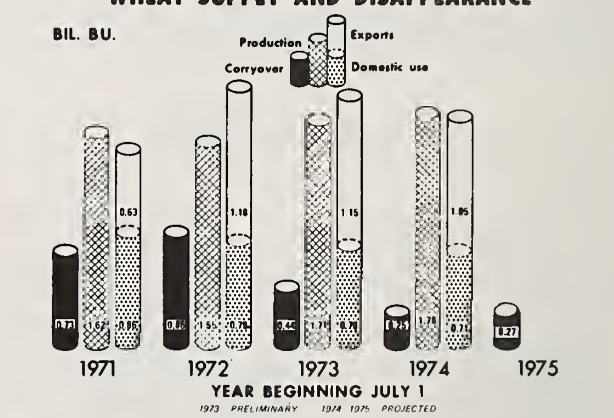
According to the January Prospective Plantings Report,[1] farmers are planning to plant about 124 million acres (national basis) to feed grains in 1975, only 1½ million or about 1 percent more than in 1974. A year ago farmers reported plans to plant 127 million acres but, owing partly to weather and other factors at planting time and the tight supply of production inputs, actual plantings were 4½ million acres less.

Indicated corn acreage of almost 77½ million acres would be close to the 77.7 million planted in 1974. Intended sorghum acreage is 19½ million, up 10 percent from last year's 17.7 million. Planned oats acreage of 17½ million would be 4 percent below 1974, continuing the downtrend of several years. Barley acreage of 9.8 million, U.S. basis, would be 8 percent more than last year but still well below plantings 2 years ago.

Farmers' indications show important shifts among the major field crops. A drop of a third is indicated for cotton acreage. The drop reflects growers' responses to prices that fell to less than half of year-ago levels because of skrinking demand. Taking up the loss in cotton acreage will be winter wheat, sorghum, and barley in the Southwest and West and soybeans in the South. Winter wheat acreage is estimated to be up 3 million or 6 percent from 1974. Soybean acreage of almost 58 million would be up 4 million from 1974 and 1 million above the peak in 1973.

This year's *wheat* market is characterized by continued strong export demand and a reduction in domestic use for feed. It now appears that exports will

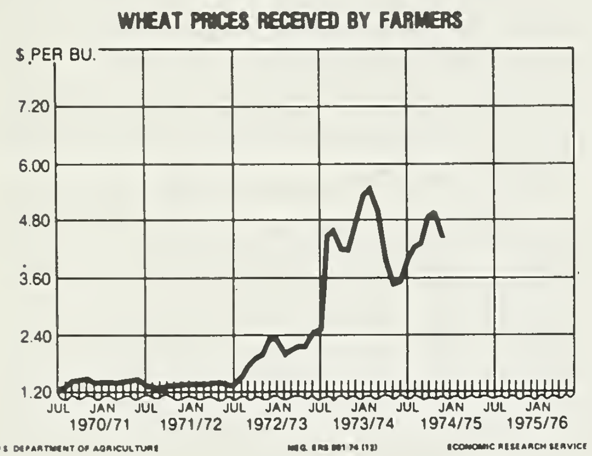
**WHEAT SUPPLY AND DISAPPEARANCE**




[1]Data for 35 States. The estimates listed are for a national basis. See table at end of Agricultural Situation, page 17.

total 1.1 billion bushels, not much below the record of 1972/73, and year-end stocks are expected to hold near last year's low level of around 250 million bushels. But with a more orderly export scene, the experience last year of operating with minimum stocks, and a free-flowing transporation system, the market has been far less volatile than last year.

Wheat disappearance during July-December 1974 at 942 million bushels was one of the heaviest on record, although restrained compared to last year's torrid rate. A sharp falloff in wheat feeding and a steadier pace of exports both contributed to the decline from last year. As a result, prices paid to farmers were less volatile and the transportation system was under less stress.




In the second half of the marketing year, the January 1 stocks of 1.1 billion bushels must satisfy demand until new crop wheat becomes readily available. The export pace is expected to continue heavy. If current projections hold up, roughly half the January 1 stocks should be exported by June 30. The domestic milling industry will grind another fourth. Seed and feed requirements will account for around 5 percent of the total. The remaining 20 percent or 250 million bushels will be this summer's old crop stocks.

Early indications suggest that U.S. wheat farmers may be setting the stage for the third consecutive record wheat harvest. Winter wheat producers, responding to strong prices and an open-ended wheat program, increased plantings 6 percent. In just 2 years, acreage is up over a fourth and the largest since 1953. Based on December conditions, which were generally good, a record winter wheat crop of 1.6 billion bushels could result.

Last spring, adverse weather and an uncertain price outlook discouraged spring wheat producers from completely fulfilling their planting intentions. This year they appear to be holding down intentions, as the January report indicated a slightly smaller spring wheat acreage.

A record 1974 *rice* crop is being matched by a sharp expansion in rice demand. Much of this growth in demand is on the export side where current forecasts show a record-shattering 73-76 million cwt. of rough rice destined to be shipped this year. This is more than a fourth above the old record set in 1969/70 and around 50 percent above the 1973/74 level. Domestic use is likely to hold at around the 36.7 million cwt. of 1973/74. This pushes total usage into a range of 109-113 million cwt., just slightly short of the record large 1974 harvest. Consequently, only a small amount of the 1974 harvest will be carried over into next year and August 1, 1975 stocks will total slightly more than a third above this past summer's 7.8 million cwt.

Rice prices have recovered somewhat from their harvest lows. In January they averaged $10.30 per cwt. For the entire year, they are expected to average around $11.00 per cwt., well below last year's $13.78.

The national acreage allotment for 1975 crop rice has been set at 1.8 million acres. The purchase rate will be maintained at the minimum level of 65 percent of parity. Marketing quotas have again been suspended for the 1975 crop.

*Soybean* supplies for the current marketing year total 1.4 billion bushels, nearly 13 percent below 1973/74. Supplies consist of the 1974 soybean crop of 1,233 million bushels and carryover stocks last September 1 of 171 million. Summer drought and early frosts reduced yields in 1974 to 23.5 bushels, 4.2 bushels below 1973. The 1974/75 supply-demand balance is not as tight as predicted last fall, due to the slackened demand for soybean products. Soybean carryover stocks on September 1, 1975, are now estimated at around 100 million bushels, down sharply from last year. U.S. average prices received by farmers for soybeans dropped from over $8 per bushel last October to $7 in December and were about $6 in late January. While farm prices are being influenced by the general economic recession, they will also be affected this spring and summer by prospects for 1975 soybean production.

In January farmers said they intend to plant about 57½ million acres of soybeans this spring, 4 million more than in 1974. Plantings in the Corn Belt are expected to be up slightly but sharp increases are indicated in the Delta and Southeastern States where prospective cotton acreage is down sharply. Soybean/corn price relationships favor corn plantings in the main Corn Belt, whereas soybean prices compare favorably with cotton prices in the South. Acreages actually planted in 1975 may change from these intentions because of weather, economic conditions, availability and price of agricultural inputs, and crop prices between now and actual spring seeding. There will be no CCC loan program for 1975-crop soybeans.

Soybean crushings this season are estimated to drop to around 750 million bushels from the 1973/74 record of 821 million. Demand for soybean oil and meal has weakened, stocks are above year-earlier levels, and spot processing margins have narrowed. The processing industry is running sharply below its estimated annual capacity of 1.1 billion bushels.

Soybean exports are now estimated at around 475 million bushels compared with the record 542 million shipped in 1973/74. Economic recession and inflation in our major foreign markets, along with increased world supplies of competitive oilseeds, fats and oils, have reduced the demand for U.S. supplies.

Soybean oil supplies are now estimated at about 8.7 billion pounds, some 8 percent below 1973/74. Domestic disappearance during October-December was down a tenth, reflecting reduced demand and increased competition from imported palm and coconut oils. For the entire marketing year, soybean oil use probably will be off about a half billion pounds from the 7.3 billion in 1973/74. Exports of soybean oil are estimated at 1.25 billion pounds, down from the 1.4 billion shipped in 1973/74 but above early season expectations—reflecting stronger foreign demand and lower soybean exports than expected. Because of reduced demand associated with the downturn in economic activity, soybean oil prices declined from the monthly average of 43 cents per pound (crude, Decatur) in August 1974 to 38 cents in December. The decline accelerated in January and prices late in the month were in the low thirties, about the same as January 1974 levels.

Soybean meal supplies total around 18 million tons compared with nearly 20 million tons in 1973/74. Domestic use is down about a tenth and for the entire year may total 12 to 12½ million tons compared with 13.8 million the previous year. Exports are projected at 5½ million tons, about the same level as 1973/74. Unfavorable livestock-feed and poultry-feed price relationships are reducing the demand for soybean meal. Prices dropped from $168 per ton (44 percent protein, Decatur) in October 1974 to $143 in December. As in the case of soybean oil, the price decline accelerated during January. Late in the month the price was down to $122, about $50 below a year ago.

*Cotton* farmers indicate intentions to plant 9½ million acres of upland cotton in 1975. Weak demand and relatively low cotton prices in relation to competing crops, particularly grain sorghum in the Southwest and soybeans in the Southeast and Delta, are sharply reducing acreage prospects. If prospects are realized, cotton acreage will be nearly 4½ million acres below the 1974 level and next to the smallest plantings since 1871. However, with stocks next summer of over 5 million bales, supplies should be adequate for domestic and export needs during 1975/76.

Cotton stocks on August 1, 1975, are expected to total about 5.7 million bales, up from 3.9 million last August. Increasing inventories reflect extremely sluggish demand for U.S. cotton, both here and abroad. Prospective domestic mill use of about 6 million bales and exports of around 3¾ million add up to about 9¾ million, compared with 13.6 million during 1973/74. The 1974 crop totaled 11.7 million bales, down from 13 million last year as adverse weather dropped yields 77 pounds below 1973's near-record 520 pounds per harvested acre.

*Tobacco* consumption continued at a high level in the last quarter of 1974. U.S. cigarette consumption and foreign demand for U.S. tobacco are expanding. Disappearance in the 1974/75 marketing year promises to hold at the seven year high level of 1973/74.

The January estimate of burley production was increased, bringing the total tobacco crop last year to an estimated 1,958 million pounds, 216 million above 1973, an increase of 12 percent. Nevertheless, record prices have been paid for both flue-cured and burley tobacco. Flue-cured tobacco averaged $1.05—17 cents per pound above the 1973 record and burley averaged $1.14—21 cents per pound above the 1973 record. Other 1974 crops are selling at higher prices than last year, indicative of the continued strong demand and relatively tight supplies of tobacco. By the end of January, virtually all the 1974 crop had been sold. The average price for the year was about $1.085 per pound or 18 cents over the crop year 1973 average—a 20 percent increase. Prospects are for a further gain in 1975, in part due to the 12 percent indicated rise in price support levels.

A larger crop is projected for 1975. The flue-cured marketing quota was increased 15 percent to 1,582 million pounds. The burley quota was increased 10 percent to 670 million pounds.

The prospects for the 1975/76 marketing year (beginning July 1) are for carryin stocks below a year earlier. However, increasing production will prevent any real change in the size of carryout stocks. Disappearance should gain, particularly due to the continued gains in cigarette output both here and overseas. The stimulus of high grower prices in a number of countries may be sufficient to encourage tobacco production beyond disappearance and rebuild depleted stocks. Key unknowns are: (1) weather conditions; (2) higher oil prices for curing (flue-cured tobacco); (3) limited fertilizer supplies and use due to high prices or cutback in natural gas needed for manufacture; and (4) increase in taxes, wage rates, and other inputs in other producing nations.

**U.S. crop production: Index numbers of production of crops, 1973 and 1974**

**(1967=100)**

| Item | 1973 | 1974 | Percentage change |
|---|---|---|---|
| All crops[1] | 119 | 110 | -8 |
| Feed grains | 115 | 92 | -20 |
| Hay and forage | 110 | 104 | -5 |
| Food grains | 112 | 120 | 7 |
| Sugar crops | 112 | 107 | -4 |
| Cotton | 174 | 157 | -10 |
| Tobacco | 89 | 100 | 12 |
| Oil crops | 155 | 129 | -17 |

[1] Includes other products not included in the separate groups shown.

*Fresh vegetable* supplies may be moderately smaller than last winter since acreage of 13 winter

vegetables is 12 percent less this season. Furthermore, imports from Mexico through late January had been light. Thus far this winter, domestic shipments of several leading vegetables, lettuce, cabbage, celery, and carrots have been less than last year, while movement of tomatoes and sweet corn from Florida and broccoli and cauliflower from California has been larger.

The combined pack of *canned and frozen vegetables* in 1974 was apparently moderately larger than the previous season with much of the increase in canned vegetables attributable to concentrated tomato products. Adding packs to carryover, total supplies of processed vegetables are moderately larger for the 1974/75 marketing season. No overall shortage is anticipated, though canned corn, a major item, in in short supply this season.

At the beginning of this marketing season, wholesalers and retailers bought actively to replenish depleted supplies, but in recent weeks trade movement has slackened markedly. Currently many packers are offering promotional allowances and, in a few instances, list prices have been shaded slightly to stimulate movement.

Supplies of frozen vegetables on January 1 were 14 percent more than 1973. Even with ample supplies available, disappearance of the three major items, peas, corn, and snapbeans, has lagged behind a year earlier. Processors have recently reduced prices to move these currently larger supplies.

Despite ample supplies, wholesale and retail prices rose more during 1974 than in any single year in recent history. Canners and freezers have experienced increased costs for all major inputs—labor, energy, containers, and raw product. Undoubtedly these higher prices have restricted consumer demand thus far this season. Furthermore, potatoes, onions, and other fresh vegetables are priced more competitively this year, resulting in substantial price and supply competition.

The 1974 fall *potato* crop was a record large 288 million cwt., 13 percent more than the small harvest in 1973 and 8 percent above the previous record set in 1970. Early season processing contract prices are reflected in the U.S. average January price of $3.32 per cwt. This compared with $4.67 in 1974 when supplies were short. Grower prices are weakest in the East and Midwest where supplies are much heavier relative to a year earlier.

A substantial cut in spring acreage is expected this season—a normal response to the record heavy storage stocks remaining to be sold. Grower prices may show some strength late in the storage season.

Record large *dry bean* output in 1974 means abundant supplies through August 1975, with white beans more plentiful than colored. Unless exports move up sharply, a large quantity of beans is expected to be carried into the 1975/76 market season. As a result, growers are expected to reduce 1975 plantings. Furthermore, in certain dry bean areas, major field crops are likely to prove to be more favorable alternatives this year.

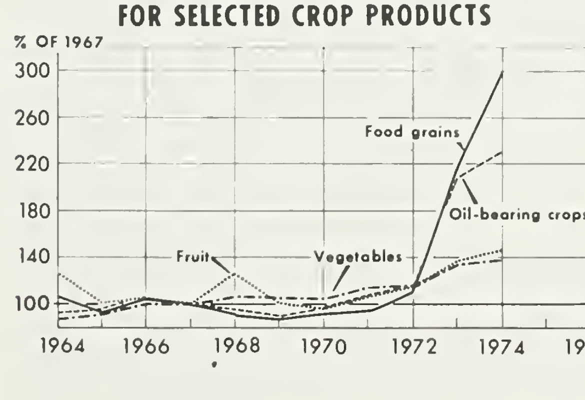
February 1 prospects for the 1974/75 *citrus* crop are 6 percent above last season's crop and 2 percent above the previous record set in 1972/73. Dominating the citrus scene is a record orange crop in prospect. The Nation's orange crop is now expected to total 234 million boxes compared to 216.5 million last season. Florida's 1974/75 orange crop at an estimated 174 million boxes is 5 percent above last season. The California orange crop, estimated at 50 million boxes, is the largest crop since 1946/47. Texas production of all oranges is forecast at 5.1 million boxes, 23 percent below last season.

The larger crop prospects, combined with large carryover stocks of most processed items, are likely to put downward pressure on orange prices. On-tree grower returns for all U.S. oranges in January were 13 percent below a year earlier. Current prospects for fresh oranges through the winter and early spring indicate grower prices will remain below year-earlier levels. The demand for frozen orange juice concentrate and chilled orange juice remains strong with further increases in consumption of these items likely during 1975.

U.S. production of grapefruit is now expected to total 59 million boxes, about 10 percent less than last season. Florida's crop is expected to total 43 million boxes, 11 percent less than a year ago. The Texas crop at 8 million boxes is 27 percent below last season. In view of the smaller remaining supplies, grower prices during the next few months are likely to advance to levels above last year.

Total utilized production of noncitrus fruit during 1974 was about the same as a year earlier but nearly one-third above the small 1972 crop. Remaining supplies of noncitrus fruits for fresh market are mostly apples, pears, and grapes. Shipments of fresh apples and pears through early February were above a year earlier, while those of grapes were about the same. At the beginning of January 1975, stocks of apples and grapes in storage were moderately larger than a year ago, but stocks of fresh pears were one-third larger than last year. With a larger supply available, current f.o.b. prices for fresh grapes and pears have been moderately to slightly lower than

**PRICES RECEIVED BY FARMERS FOR SELECTED CROP PRODUCTS**



last year and will likely remain so for the rest of the season. F.o.b. prices for fresh apples have shown a mixed picture depending on areas and varieties, but later in the season when most fresh apples will be marketed from Washington State, prices are expected to be slightly higher in view of the smaller Delicious crop and increased volume from controlled-atmosphere storage.

The 1974/75 pack of noncitrus fruit is estimated to be considerably above last year's levels on the basis of pack data available so far this season. Thus, even with a substantially smaller carryover, total supplies of canned fruit for the 1974/75 marketing season are considerably above those of a year earlier.

### Sharp Adjustments in the Livestock Sector

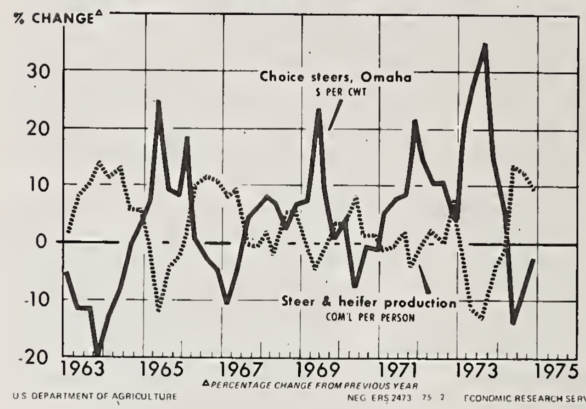
*Cattle* prices dropped through the second half of 1974 as cattle slaughter grew to record proportions. Cattle slaughter during July-September was a record 9.4 million and was quickly exceeded in October-December when commercial cattle slaughtered totaled over 10 million head. All of the increase in slaughter was from cows and nonfed steers and heifers. Cattle marketed from feedlots in the 23 major cattle feeding States in the second half of the year were the fewest since 1967. Fed cattle made up less than 60 percent of commercial slaughter during the second half of the year as opposed to 72 percent in the first half, and 77 percent in 1973.

The large slaughter supplies of grass fed cattle were the result of forced marketings. High feed prices and losses to cattle feeders for more than a year reduced the demand for feeder cattle and the number placed on feed. But the larger feeder cattle and cow inventories could not be maintained on the smaller forage supplies that existed in the fall and early winter and record slaughter of grass cattle was the result.

All classes of cattle declined in price through the last six months of 1974 with grass cattle prices dropping the most. Choice steers at Omaha averaged $44.21 in the third quarter then dropped to $38.28 in the fourth. Utility cows that sold for around $32 per 100 pounds early in 1974 dropped to $23.77 in the third quarter and $18.32 during October-December. Feeder cattle weighing 600-700 pounds at Kansas City sold for around $50 per 100 pounds in the early months of 1974 but fell to $34.64 in the third quarter, and further down to $29.31 in the fourth. Lightweight calves suffered the greatest price decline in 1974 as feed prices increased, adding to the cost of gain. Calves weighing 300-500 pounds, for example, fell steadily through the year from over $54 per 100 pounds in January 1974 to less than $27 in December.

Total cattle slaughter is expected to remain large through January-March as cow culling continues and reduced winter feed supplies force marketings of cattle that remain outside of feedlots. This will keep downward price pressure on all classes of cattle through the winter. However, fed cattle supplies will continue to be small, at near the October-December

**CHANGES IN BEEF PRICES AND PRODUCTION**

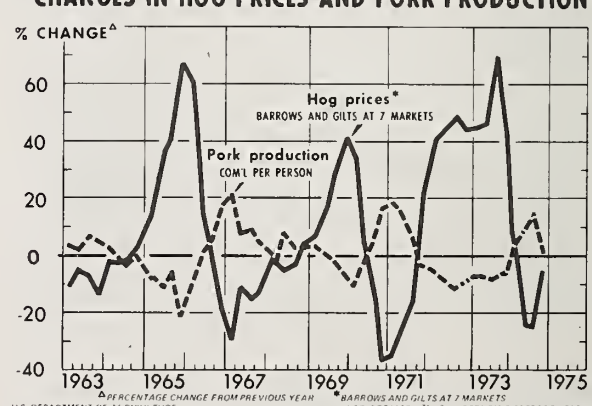



level. Choice steers at Omaha could average in the mid-$30's per 100 pounds in January-March.

In the spring, as cattle can move back to the range and pastures, cow slaughter is expected to decline seasonally, relieving some of the pressure of large slaughter supplies. Choice steer prices could move back up into the low to mid-$40's range with prices of cows and feeder cattle also improving somewhat. If fed cattle prices advance as expected, many cattle feeders may begin to break even on cattle feeding, which would encourage placements of feeder cattle. Placements of feeder cattle into feedlots during April-June could turn higher than a year earlier for the first time in two years, unless feed prices move much higher than now seems likely.

When the full extent of the damage to the 1974 crop became apparent in July and August of 1974, *hog* farmers responded by selling large numbers of sows from an already small inventory. Estimated commercial sow slaughter, for example, rose from a low of 313,000 head in March to 661,000 head in August. Sow slaughter in the second half of 1974 was about 40 percent larger than a year earlier despite a smaller inventory at midyear. Although commercial hog slaughter in July-December 1974 was about 9 percent larger than a year earlier, hog prices advanced throughout the last 7 months of the year.

**CHANGES IN HOG PRICES AND PORK PRODUCTION**



Barrows and gilts averaged $28.00 per 100 pounds at 7 markets during April-June, advanced to $36.59 in the third quarter, and rose to $39.06 in the fourth.

Reduced inventories of market hogs on farms December 1 point to smaller hog slaughter supplies during the first half of 1975. Lighter average slaughter weights are expected to reduce pork production even more than slaughter. Commercial pork production during January-March could be down 7-9 percent from a year earlier followed by a 14-16 percent decline from year-earlier levels in the second quarter. Hog prices will remain strong, perhaps averaging in the low $40's per 100 pounds in January-March and up to the low to mid-$40's in April-June. Upward pressure on hog prices, however, will be limited by large supplies and low prices for beef.

Farrowing intentions last December for the spring pig crop indicate a continued reduction in pork production during the second half of 1975, possibly dropping 14-16 percent from a year earlier.

Commercial *sheep* and *lamb* slaughter in 1974 was 8.8 million head, 8 percent fewer than 1973. Slaughter lambs were the only category of livestock to register a price increase last year. Choice slaughter lambs at 5 markets averaged $39.73 per 100 pounds, up over $3 from 1973. Slaughter lambs peaked later in the year than they usually do, rising from about $40 per 100 pounds in January to over $47 at most markets in May. In the second half of the year, lambs sold mostly in the $37-$39 range. Sheep and lamb slaughter in the first half of 1975 will remain below a year earlier with prices advancing to a spring peak near the mid-$40's.

*Egg* production, below year-earlier levels since early 1972, will remain lower during most of 1975. Output during 1974 totaled 181.8 million cases, down a little less than 2 percent from 1973 and the smallest since 1964. The lower production resulted from fewer layers since the rate of lay was up in 1974. The Nation's laying flock averaged about 284 million birds, 3 percent fewer than a year earlier and 10 percent below 1971. The rate of lay in 1974 was at record levels and a little over 1 percent above the previous year.

High production costs and poor profitability in 1974 caused producers to sharply cut their hatchery activity for flock requirements for the first half of 1975. The hatch of egg-type chicks that will provide flock replacements for January-June was down 18 percent from a year earlier. However, eggs in incubators on January 1, 1975, that will provide pullets for flock replacements in early summer were down only 2 percent. Fewer layers, a reduced replacement hatch, and a slowing in the rate of lay may cause egg output this winter and spring to drop 5 percent or more below a year prior.

Egg prices lagged year-earlier levels during the last 8 months of 1974 and are expected to remain below 1974 levels this winter. Prices will stay strong through the winter but weaken seasonally this spring. However, the price decline next spring probably will be smaller than occurred in 1974 and prices likely will move above year-earlier levels as supplies continue to lag.

*Broiler* production in 1974 was above year-earlier levels through the summer, but fell substantially below year-earlier levels during the fall. For all of 1974, broiler meat output in Federally inspected plants was up a little less than 2 percent. Although slightly fewer birds were slaughtered in 1974, this was more than offset by an increase in marketing weights and reduced condemnations.

Producers have curtailed both the number of eggs set and the number of chicks placed in recent months. Broiler chick placements for January-March marketings are down around 8 percent and may continue near this level through midyear. However, easing feed prices may cause producers to increase hatchery activity in coming weeks.

Broiler prices during most of 1974 were below 1973 levels but well above other previous years. However, high production costs caused profit margins to be negative during much of 1974. Broiler prices in coming months will be bolstered by lower supplies of broilers, turkey, and pork. However, broiler price increases will be dampened by larger beef supplies and eroding consumer purchasing power.

*Turkey* meat output in the seasonally light first half of 1974 rose substantially but was largely offset by a sharp decline in autumn. Output of turkey meat in Federally inspected plants for all of 1974 was up a little less than 3 percent from 1973.

Turkey poult placements since September 1974 suggest that turkey marketings in the first half of 1975 will be down 10-15 percent below the same months of 1974. Available supplies during the first half of 1975 will be down slightly more than marketings because of lower January 1 cold storage stocks. Cold storage turkey holdings on January 1 totaled 274 million pounds, about 3 percent below a year earlier.

Despite declining production, turkey prices have weakened in early 1975. Turkey prices probably will strenghten slightly in coming months as production lags. But relatively large turkey supplies, combined with large supplies of beef, are likely to moderate price increases for turkey this winter and spring.

*Milk* production in January held about even with a year earlier. Increasing feed costs caused farmers to cut back on feeding grain and concentrates to their dairy cows, thus limiting gains in milk production per cow. However, continued low slaughter cow prices and the lack of farm and nonfarm economic alternatives for dairymen have reduced herd culling. Milk cow numbers actually increased in late 1974, the first such gain in twenty years. For all of 1974, milk production totaled 115.4 billion pounds, about the same as in 1973.

We may continue to see milk output holding about even early this year. However, larger dairy product stocks will maintain adequate supplies for consumers. The recent increase in dairy support levels will probably maintain farm milk prices slightly above fourth-quarter 1974 levels, but feed

Table 2.--Supply-distribution and season average prices of selected major crops, 1971/72, 1972/73, 1973/74, and 1974/75

| Item | Unit | Beginning stocks | Imports | Production | Total supply | Domestic use | Exports | Total use | Ending stocks | Season average price 1/ |
|---|---|---|---|---|---|---|---|---|---|---|
| Feed grains | | | | | | | | | | |
| 1971/72 | Mil. tons | 33.2 | 0.5 | 207.7 | 241.4 | 165.7 | 27.3 | 193.0 | 48.4 | 2/1.08 |
| 1972/73 | Mil. tons | 48.4 | .4 | 199.9 | 248.7 | 173.2 | 43.1 | 216.3 | 32.4 | 2/1.57 |
| 1973/74p | Mil. tons | 32.4 | .2 | 205.0 | 237.6 | 171.0 | 44.4 | 215.4 | 22.2 | 2/2.55 |
| 1974/75e | Mil. tons | 22.2 | .5 | 165.1 | 187.8 | 141.4 | 33.7 | 175.1 | 12.7 | 2/2.51 |
| Wheat | | | | | | | | | | |
| 1971/72 | Mil. bu. | 731.5 | 1.0 | 1,617.8 | 2,350.3 | 854.7 | 632.5 | 1,487.2 | 863.1 | 1.34 |
| 1972/73 | Mil. bu. | 863.1 | 1.3 | 1,544.9 | 2,409.3 | 784.6 | 1,186.3 | 1,970.9 | 438.4 | 1.76 |
| 1973/74p | Mil. bu. | 438.4 | 3.8 | 1,705.2 | 2,147.4 | 751.3 | 1,148.7 | 1,900.0 | 247.4 | 3.96 |
| 1974/75e | Mil. bu. | 247 | 2 | 1,793 | 2,042 | 692 | 1,100 | 1,792 | 250 | 4.32 |
| Rice | | | | | | | | | | |
| 1971/72 | Mil. cwt. | 18.6 | 1.1 | 85.8 | 105.5 | 3/37.2 | 56.9 | 94.1 | 11.4 | 5.34 |
| 1972/73 | Mil. cwt. | 11.4 | .5 | 85.4 | 97.3 | 3/38.2 | 54.0 | 92.2 | 5.1 | 6.73 |
| 1973/74p | Mil. cwt. | 5.1 | .2 | 92.8 | 98.1 | 3/40.6 | 49.7 | 90.3 | 7.8 | 13.78 |
| 1974/75e | Mil. cwt. | 7.8 | 0 | 114.1 | 121.9 | 36.6 | 74.5 | 111.1 | 10.8 | 10.78 |
| Soybeans | | | | | | | | | | |
| 1971/72 | Mil. bu. | 98.8 | 0 | 1,176.0 | 1,274.8 | 786.0 | 416.8 | 1,202.8 | 72.0 | 3.03 |
| 1972/73 | Mil. bu. | 72.0 | 0 | 1,270.6 | 1,342.6 | 803.6 | 479.4 | 1,283.0 | 59.6 | 4.37 |
| 1973/74p | Mil. bu. | 59.6 | 0 | 1,547.2 | 1,606.8 | 893.9 | 542.0 | 1,435.9 | 170.9 | 5.68 |
| 1974/75e | Mil. bu. | 170.9 | 0 | 1,233.4 | 1,404.3 | 825 | 479 | 1,304 | 100 | 7.69 |
| Cotton 4/ | | | | | | | | | | |
| 1971/72 | 5/Mil. bales | 4.3 | 6/.1 | 10.4 | 14.8 | 8.2 | 3.4 | 11.6 | 3.3 | 28.23 |
| 1972/73 | 5/Mil. bales | 3.3 | 6/7/ | 13.7 | 17.0 | 7.8 | 5.3 | 13.1 | 4.1 | 27.3 |
| 1973/74p | 5/Mil. bales | 4.1 | 6/.1 | 13.1 | 17.3 | 7.5 | 6.1 | 13.6 | 3.9 | 44.6 |
| 1974/75e | 5/Mil. bales | 3.9 | 6/.1 | 11.7 | 15.7 | 6.1 | 3.8 | 9.9 | 5.7 | 8/46.1 |

1/ Dollars per bushel, except cotton which is cents per pound and rice which is dollars per hundredweight. 2/ Prices for corn. 3/ Includes the following statistical discrepancies: 1971/72, 1.8, 1972/73, 2.4 and 1973/74, 3.9 mil. cwt. 4/ Production based on ginnings between August 1 and July 31. 5/ 480 pound net weight bales. 6/ Includes city crop. 7/ Less than 50,000 bales. 8/ Average price to Jan. 1, 1975, with no allowance for unredeemed loans.

1974/75 based on recent crop reports. Disappearance estimates are mid-points of the range. Details may not add to totals due to rounding. p. Preliminary. e. Estimated.

prices are likely to stay high. The milk-feed price ratio should improve slightly, but will probably remain relatively unfavorable to heavy grain and concentrate feeding. On the other hand, low slaughter cow prices are likely to continue to discourage dairy herd culling.

Effective January 4, 1975, USDA increased the support price for manufacturing milk to $7.24 per 100 pounds, up from the $6.57 previous level. A companion action later in the month brought February and March minimum class I prices in Federal orders in line with the price support decision. Manufacturing milk prices had dropped in November and December following seasonal gains since summer. This action will probably hold farm milk prices early this year slightly above the fourth quarter 1974 average of $8.31.

Commercial disappearance of milk in all dairy products in 1974 was nearly the same as the previous year. Butter sales closed out 1974 on a strong note. Butter continues to be favorably priced relative to margarine. Although cheese sales were up about 5 percent last year, some weakness was noted at year's end. Large supplies of other high-protein foods are giving cheese stiff competition. Consumers are eating more frozen desserts, but cottage cheese consumption fell off last year. Nonfat dry milk sales declined sharply as users cut back its use and looked to substitutes.

USDA dairy product purchases under the dairy price support program have been running higher this marketing year. Removals were equivalent to 1.5 billion pounds of milk during April 1974-January 1975, more than double year-earlier levels.

Although declining seasonally this winter, commercial stocks of dairy products remain at high levels. Estimated at 5.5 billion pounds milk equivalent at the end of 1974, commercial dairy stocks were about a sixth above year-earlier levels. Increased demand has pulled butter stocks close to

Table 3.--Production and prices received by farmers for major livestock and livestock products, 1972, 1973, 1974 and fourth quarters of 1973 and 1974

| Item | Unit | Annual 1972 | Annual 1973 | Annual 1974 1/ | Fourth quarter 1973 | Fourth quarter 1974 1/ |
|---|---|---|---|---|---|---|
| Production 2/ | | | | | | |
| Beef and veal | Mil. lb. | 22,878 | 21,634 | 23,488 | 3/5,729 | 3/6,173 |
| Pork | Mil. lb. | 13,640 | 12,751 | 13,688 | 3/3,347 | 3/3,341 |
| Lamb and mutton | Mil. lb. | 543 | 514 | 470 | 3/123 | 3/108 |
| Chickens | Mil. lb. | 9,102 | 8,916 | 8,970 | 3/2,091 | 3/1,921 |
| Turkeys | Mil. lb. | 1,945 | 1,956 | 1,945 | 3/717 | 3/596 |
| Eggs | Mil. lb. | 9,098 | 8,706 | 8,563 | 2,182 | 2,109 |
| Milk | Mil. lb. | 119.9 | 115.6 | 115.4 | 4/26.6 | 4/26.9 |
| Prices received by farmers | | | | | | |
| Cattle | Dol./cwt. | 33.50 | 42.80 | 35.70 | 40.00 | 28.80 |
| Hogs | Dol./cwt. | 26.00 | 39.40 | 34.30 | 39.90 | 37.40 |
| Lambs | Dol./cwt. | 29.10 | 35.10 | 37.50 | 33.90 | 34.70 |
| Broilers | Ct./lb. | 5/14.1 | 5/24.0 | 5/21.4 | 20.8 | 22.8 |
| Turkeys | Ct./lb. | 22.1 | 34.8 | 28.3 | 41.6 | 29.5 |
| Eggs | Ct./doz. | 31.7 | 54.1 | 52.8 | 60.8 | 56.7 |
| All milk (sold to plants) | Dol./cwt. | 6.07 | 7.14 | 8.30 | 8.59 | 8.31 |

1/ Preliminary. 2/ Data for 50 States. Carcass weight production for red meats; ready-to-cook for poultry, and shell-weight for eggs. 3/ Commercial production only. 4/ Based on monthly data. 5/ Marketing year average December-November.

year-earlier levels, but American cheese and nonfat dry milk holdings closed the year at near record levels. Government holdings of butter and cheese continue relatively small, but nonfat dry milk stocks have increased substantially. USDA uncommitted inventories of nonfat dry milk totaled close to 184 million pounds by the end of 1974; there were none a year ago.

Dairy imports have slackened to more normal levels in recent months. Imports for calendar year 1974 totaled around 2.9 billion pounds (milk equivalent), down from 3.9 billion pounds in 1973, but well above the average level of recent years.

### Agricultural Input Situation Improving

After a rather bleak year, the supply situation for most agricultural inputs is improving. In some cases, the quantity of inputs available is increasing rapidly, while in others, adequate quantities will not likely be available for a couple of years. While many of the availability problems will be resolved this year, and the surge in prices abated somewhat, farmers will still face high costs for most inputs through 1975.

The fertilizer situation is better but still tight. Phosphates show the greatest improvement with the quantity of phosphates available to U.S. farmers for this year's crop expected to be up 14 percent. A 6 percent increase in the supply of nitrogen is expected with the possibility of additional amounts of nitrogen that would have gone to industry becoming available for fertilizer use if the economy remains weak. Only a 5 percent increase in the quantity of potash available to U.S. farmers is expected. However, as contrasted with nitrogen and phosphate, adequate supplies of potash have generally been available in the past and with the 5 percent increase no serious problem appears likely.

Except for a few bright spots, the pesticide situation will remain tight. Beginning inventories for many products were only half normal levels. Although petrochemical feedstocks are generally adequate now, they constrained production earlier, and capacity constraints are currently limiting production of some products. The suspension of aldrin could create some serious problems for corn producers, particularly in controlling cutworms. Supplies of chlordane and heptachlor, the primary substitutes for cutworm control, are probably not adequate to replace the aldrin. And carbofuran and phorate, leading substitutes for rootworm control, are already in short supply. Price increases somewhat greater than last year's can be anticipated.

The supply of fuel for farmers is much improved over the picture of a year ago. Gasoline and diesel inventories are well above a year ago. With the rate of increase in total domestic use of gasoline somewhat reduced, there appears to be no shortage of this fuel. Diesel fuel is plentiful and appears sufficient to meet base demands. Local supply problems could develop if severe winter weather increases demand for distillates.

The outlook is less rosy for LP gas. The FEA supply-demand situation report indicates a shortfall of LP gas of from 4 to 6 percent, at least through the first half of 1975. For the remainder of the year, a shortfall of 1 to 2 percent appears more likely. With about 70 percent of LPG produced from natural gas, the growing shortage of natural gas suggests little improvment in the supply of LP gas. Although the food and fiber sector is authorized 100 percent of current fuel needs under the mandatory petroleum allocation program, this tight LP gas situation may cause delays in securing needed supplies.

Farmers should have little trouble securing hay balers and smaller tractors this year but may encounter delays in delivery of larger equipment at least through midyear. Manufacturers are operating near capacity and are slowly rebuilding inventories, but normal inventory levels will not be restored until mid or late 1975, especially for larger machines. Machinery prices will likely continue to increase in 1975 but less than the 23 percent between December 1973 and December 1974.

**U.S. agricultural imports, value of major commodities**

| Commodity | July-December | | Percentage change |
|---|---|---|---|
| | 1973 | 1974[1] | |
| | *Million dollars* | *Million dollars* | *Percent* |
| Supplementary | | | |
| Animals and animal products | 1,480 | 897 | -39 |
| Fruits | 91 | 102 | 12 |
| Oilseeds and oil products | 181 | 359 | 98 |
| Sugar and molasses | 548 | 1,589 | 190 |
| Tobacco, unmanufactured | 90 | 100 | 11 |
| Vegetables | 136 | 144 | 6 |
| Wines and malt beverages | 183 | 171 | -7 |
| Other | 266 | 347 | 30 |
| Total | 2,974 | 3,709 | 25 |
| Complementary | | | |
| Bananas | 94 | 98 | 4 |
| Cocoa and chocolate | 38 | 56 | 47 |
| Coffee | 767 | 587 | -24 |
| Rubber | 206 | 229 | 11 |
| Other | 269 | 368 | 37 |
| Total | 1,374 | 1,338 | -3 |
| Total imports | 4,349 | 5,047 | 16 |

[1] Preliminary.

Totals may not add due to rounding.

## Export Value at Record Pace

U.S. exports of farm products for the fiscal year ending June 30, 1975, are currently projected at $22 billion, compared with the record $21.3 billion shipped overseas in fiscal 1974. During the first 6 months of the current fiscal year, agricultural exports rose 7 percent to $10.6 billion—despite a 21- percent decline in the volume of the major bulk commodities. For the year, tonnage of the principal bulk commodities is expected to drop by more than 15 percent. However, higher prices for many of the commodities will more than offset the volume decline.

Agricultural imports are expected to total $10.7 billion in fiscal 1975—approximately $1.2 billion above last year. The value of imported sugar and related products is expected to be up about $2 billion to over $3.3 billion. Thus, agriculture's contribution to the U.S. trade balance should total over $11 billion and compare favorably with the $11.8 billion of fiscal 1974.

**U.S. agricultural exports, value of major commodities**

| Commodity | July-December | | Percentage change |
|---|---|---|---|
| | 1973 | 1974[1] | |
| | *Million dollars* | *Million dollars* | *Percent* |
| Animals and animal products | 814 | 828 | 2 |
| Cotton | 401 | 442 | 10 |
| Feed grains, excluding products | 2,136 | 2,140 | 0 |
| Fruits | 314 | 322 | 2 |
| Soybeans | 1,293 | 1,577 | 22 |
| Tobacco, unmanufactured | 418 | 490 | 17 |
| Vegetables | 201 | 267 | 33 |
| Wheat and flour | 2,720 | 2,616 | -4 |
| Rice | 312 | 412 | 32 |
| Other | 1,335 | 1,554 | 16 |
| Total exports | 9,944 | 10,648 | 7 |

[1] Preliminary.

**1974 Plantings and prospects for 1975, 10 major crops, United States[1]**

| Crop | 1974 | | Prospective plantings, 1975 | | |
|---|---|---|---|---|---|
| | Acres planted | Change from 1973 | Acres | Change from 1974 | |
| | | | | Acres | Percent |
| | *million acres* | *million acres* | *million acres* | *million acres* | |
| Wheat | 71.2 | +12.2 | 74.0 | +2.8 | +4 |
| Rice | 2.59 | +.41 | 2.52 | -.07 | -3 |
| Corn | 77.7 | +5.8 | 77.4 | -.3 | 0 |
| Sorghum | 17.7 | -1.5 | 19.4 | +1.7 | +10 |
| Upland cotton | 13.9 | +1.5 | 9.5 | -4.4 | -32 |
| Sugarbeets[2] | 1.181 | +.023 | 1.438 | +.257 | +22 |
| Soybeans | 53.6 | -3.1 | 57.6 | +4.0 | +7 |
| Flaxseed | 1.739 | -.003 | 1.834 | +.095 | +5 |
| Barley | 7.1 | -2.1 | 9.8 | +.7 | +8 |
| Oats | 18.1 | -1.0 | 17.5 | -.6 | -3 |
| Total | 266.8 | +12.2 | 271.0 | +4.2 | |

[1] Based on Prospective Plantings Report for 1975—35 States, Statistical Reporting Service; Agricultural Supply and Demand Estimates, January 27, 1975, Economic Research Service. [2] 14 States.

Table 4.--General economic activity

(Quarterly data at seasonally adjusted annual rates)

| Item | Year 1973 | Year 1974 1/ | 1974 II | 1974 III | 1974 IV 1/ |
|---|---|---|---|---|---|
| | Billion dollars | | | | |
| Gross national product | 1,294.9 | 1,396.7 | 1,383.8 | 1,416.3 | 1,428.0 |
| Gross national product (1958 dollars) | 839.2 | 821.1 | 827.1 | 823.1 | 803.7 |
| Disposable personal income | 903.7 | 979.7 | 966.5 | 993.1 | ,008.7 |
| Personal consumption expenditures | 805.2 | 877.0 | 869.1 | 901.3 | 896.8 |
| Durable | 130.3 | 127.8 | 129.5 | 136.1 | 121.5 |
| Nondurable | 338.0 | 380.2 | 375.8 | 389.0 | 391.5 |
| Services | 336.9 | 369.1 | 363.8 | 376.2 | 383.8 |
| Personal savings | 74.4 | 76.7 | 71.5 | 65.5 | 85.4 |
| Net government receipts | 279.9 | 303.1 | 303.3 | 312.4 | --- |
| Government purchases | 276.4 | 308.8 | 304.4 | 312.3 | 322.4 |
| Federal | 106.6 | 116.4 | 114.3 | 117.2 | 122.8 |
| State and local | 169.8 | 192.4 | 190.1 | 195.1 | 199.6 |
| Deficit or surplus (on income and product accounts) | 3.5 | -5.9 | 1.0 | .2 | --- |
| Gross private domestic investment | 209.4 | 208.9 | 211.8 | 205.8 | 207.6 |
| Fixed investment | 194.0 | 195.6 | 198.3 | 197.1 | 193.2 |
| Residential | 57.2 | 46.0 | 48.8 | 46.2 | 40.5 |
| Nonresidential | 136.8 | 149.6 | 149.4 | 150.9 | 152.7 |
| Change in business inventories | 15.4 | 13.4 | 13.5 | 8.7 | 14.4 |
| Gross retained earnings | 136.5 | 136.5 | 135.8 | 130.6 | --- |
| Excess of investment | -72.9 | -72.4 | -76.1 | -75.2 | --- |
| Net exports of goods and services | 3.9 | 2.0 | -1.5 | -3.1 | 1.2 |
| Per capita disposable personal income (1958 dollars) | 2,945 | 2,846 | 2,850 | 2,842 | 2,804 |
| Total civilian employment (millions) 2/ | 84.4 | 85.9 | 86.0 | 86.4 | 85.7 |

1/ Preliminary.
2/ U.S. Department of Labor.
U.S. Department of Commerce.

# GENERAL ECONOMIC SITUATION

Real GNP, responding to a changing variety of factors, declined steadily through 1974. The first half of the year was dominated by supply difficulties which caused declines in output and, in combination with strong demand, resulted in rapid rates of inflation. Late in the year, high production costs and decreased purchasing power produced a dramatic decline in investment and consumption demand which was reflected in sharply lower output and employment, lower interest rates, and a slower rate of inflation. By the end of 1974, it was apparent that the economy was in the midst of its worst postwar recession.

Real GNP declined 9.1 percent at an annual rate in the fourth quarter. This was the fourth consecutive quarter-to-quarter decline in real GNP and was the largest percentage decline of the current recession. Real GNP was $821.1 billion in 1974 compared to $839.2 billion in 1973.

**Major GNP components, change from previous quarter**

| Item | 1974 | | |
|---|---|---|---|
| | II | III | IV[1] |
| | *Billion dollars* | *Billion dollars* | *Billion dollars* |
| Total change in GNP | 25.0 | 32.5 | 11.7 |
| Consumption | 28.5 | 32.2 | -4.5 |
| Private nonresidential fixed investment | 4.2 | 1.5 | 1.8 |
| Housing | .4 | -2.6 | -5.7 |
| Inventory[2] | -3.4 | -4.8 | 5.7 |
| Net exports | -12.8 | -1.6 | 4.3 |
| Government | 8.1 | 7.9 | 10.1 |

[1] Preliminary. [2] See footnote in following text table.

Despite declines in real disposable personal income in the first three quarters of 1974, real personal consumption expenditures steadily increased. In the third quarter, the saving rate dipped to 6½ percent. This trend was reversed in the fourth quarter when real personal consumption expenditures declined at an annual rate of $17.1 billion, more than 2½ times the $6.7 billion decline in real disposable personal income. As a result, the saving rate rose sharply to 8½ percent.

Real gross private domestic investment fell at an annual rate of $3.8 billion in the fourth quarter. The accumulation of unsold automobiles resulted in an increase in real inventory investment which was more than offset by a sharp decline in real business fixed investment and an additional decrease in investment in residential structures. Exports of goods and services exceeded imports by $1.2 billion at an annual rate, compared with a $3.1 billion deficit recorded in the third quarter.

A slowing of inflation rates in the fourth quarter was the only positive consequence of falling demand. The rate of inflation at the wholesale level was considerably lower. Fourth quarter developments in prices of crude materials (excluding farm products) were particularly encouraging. Crude materials prices showed three consecutive months of decline and decreased 3.3 percent in December alone. On the negative side, sagging demand was reflected in a 6.5 percent unemployment rate for the fourth quarter and an 8.2 percent rate for January. Employment declines were widespread; more than three-fourths of all nonagricultural industries experienced employment reductions in both November and December.

**GNP and final sales, change from previous quarter**

| Year | GNP | Final sales | Inventory change[1] |
|---|---|---|---|
| | *Billion dollars* | *Billion dollars* | *Billion dollars* |
| 1971: I | 36.0 | 33.3 | 2.8 |
| II | 19.5 | 19.1 | .2 |
| III | 14.0 | 18.4 | -4.3 |
| IV | 21.9 | 20.3 | 1.6 |
| 1972: I | 31.8 | 32.2 | -.4 |
| II | 28.0 | 25.1 | 3.0 |
| III | 26.3 | 24.0 | 2.2 |
| IV | 35.4 | 34.6 | .8 |
| 1973: I | 44.2 | 45.2 | -1.0 |
| II | 29.0 | 28.3 | .7 |
| III | 31.0 | 29.8 | 1.1 |
| IV | 35.1 | 18.1 | 17.1 |
| 1974: I | 14.8 | 26.8 | -12.0 |
| II | 25.0 | 28.4 | -3.4 |
| III | 32.5 | 37.3 | -4.8 |
| IV[2] | 11.7 | 5.9 | 5.7 |

[1] Represents the difference in the change in business inventories. For example, the change in business inventories in the fourth quarter of 1974 ($14.4 billion) less the change in the third quarter of 1974 ($8.7 billion) equals plus ($5.7 billion).
[2] Preliminary.

### Economy to Decline Further

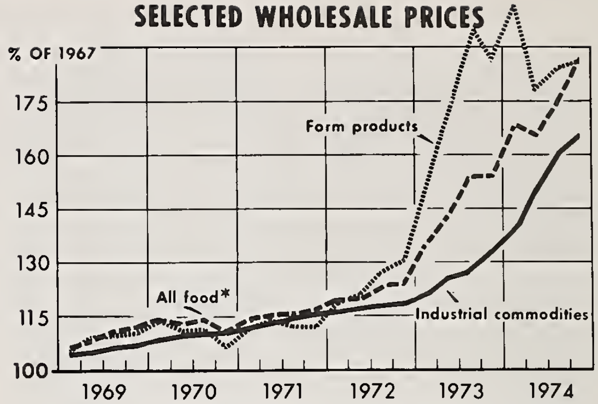
The first half of 1975 will see a continuation of the trends established late in 1974. Consumption and investment demand will remain weak. Unemployment will continue to increase and is likely to reach 9 percent. Low levels of demand relative to potential output, together with recent favorable developments in crude materials prices, will bring about a significant slowing in inflation rates. The rate of increase in consumer prices may fall below 8 percent by midyear.

A tax cut is likely in the first half of 1975 and monetary policy will be more expansionary compared to the second half of 1974. These policy measures, in combination with the improved economic climate provided by a period of slower inflation, should result in a mild recovery in the form of a leveling off of employment and output in the second half. Although increases in economic activity are possible late in 1975, production increases may not appear before 1976.

### Production Down

The effects of lower demand in the fourth quarter of 1974 were evident in both sharply lower industrial production and a plummeting rate of capacity utilization in major materials industries. Overall industrial production declined 12.1 percent at an annual rate in the fourth quarter and was 6.5 percent below the year earlier level in December. The largest annual rates of decline in production occurred in consumer durables, down 33 percent; materials, down 18 percent; and intermediate products, down 17 percent. The capacity utilization rate in major materials industries fell nearly 8 percentage points to 80.6 percent in the fourth quarter, and was 11.7 percentage points below the December 1973 level.

**SELECTED WHOLESALE PRICES**




*ALL FOOD INCLUDES ALL PROCESSED FOODS PLUS EGGS AND FRESH AND DRIED FRUITS AND VEGETABLES FROM THE FARM PRODUCTS GROUP. BASED ON DATA OF THE BUREAU OF LABOR STATISTICS.

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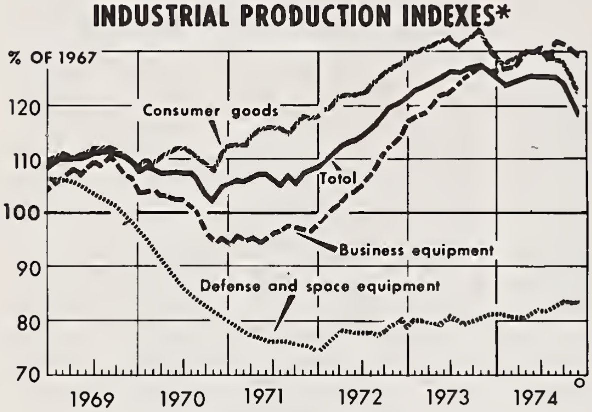
**INDUSTRIAL PRODUCTION INDEXES***




*SEASONALLY ADJUSTED. oPRELIMINARY.

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### Inflation Easing

The annual rate of inflation in 1974 as measured by the change in the GNP implicit price deflator was 10.2 percent. By the same measure, the annual rate of inflation in the fourth quarter was 13.7 percent. Although this was the largest annual rate of change in the GNP deflator recorded in any quarter of 1974, a more detailed examination of fourth quarter price developments suggests that prices were reacting to weaker demand and inflation was easing.

The 3.5 percent increase in wholesale prices in the fourth quarter was a substantial improvement over the 7.1 percent advance in the third quarter. Although wholesale prices advanced 1.8 percent in October and 1.0 percent in November, the Wholesale Price Index actually declined 0.2 percent in December and increased only 0.2 percent in January. Reflecting a marginal increase in seasonally adjusted industrial commodity prices and a 2.5 percent decline in seasonally adjusted prices of farm products and processed foods and feeds, seasonally adjusted wholesale prices declined 0.5 percent in December. This was the only month-to-month decline in seasonally adjusted wholesale prices in 1974. Nonetheless, as a result of previous increases, wholesale prices were 20.9 percent higher in December 1974 than a year earlier.

Crude materials prices declined for three consecutive months in the fourth quarter and were down 3.3 percent in December alone. While prices of intermediate materials continued to increase, they increased at progressively slower rates and were up only 0.2 percent in December. Prices of crude and intermediate materials are important components of the costs of finished goods. Therefore, the behavior of these prices should have a favorable effect on future retail prices.

The Consumer Price Index increased 2.9 percent in the fourth quarter. Food prices were up 3.1 percent and prices of nonfood items increased 2.9 percent. The annual rate of increase in consumer prices was not much lower than the 12.2 percent increase for the year, but inflation at the retail level was below 1 percent in three consecutive months for the first time in 1974.

While supply difficulties were responsible for the recession and a substantial part of the inflation during the first half of 1974, the improvement in the rates of price increases in the fourth quarter is consistent with the increasing importance of insufficient demand as a causative factor in the continuing recession. Since demand will remain weak through the first half of 1975, the rate of inflation should continue to subside and may fall below 8 percent by midyear. However, the continued presence of cost-push pressures is likely to prevent an early return to more normal rates of inflation.

### Consumption Falls Sharply

Nominal disposable personal income at an annual rate increased from a $993 billion annual rate in the third quarter of 1974 to $1,009 billion in the fourth. As in the previous three quarters, inflation accounted for all of the increase. Real disposable personal income in 1958 dollars declined from $603 billion to $596 billion. These fourth quarter developments contributed to an increase in nominal disposable personal income from $904 billion in 1973 to $980

Table 5.—Consumer Price Index (1967=100)

| Year and month | All items index | Change from previous month annual rates | Change from year-ago | Food index | Change from previous month annual rates | Change from year-ago |
|---|---|---|---|---|---|---|
| | *1967=100* | *Percent* | *Percent* | *1967=100* | *Percent* | *Percent* |
| 1974 | | | | | | |
| January | 139.7 | 10.4 | 9.4 | 153.7 | 19.1 | 19.5 |
| February | 141.5 | 15.5 | 10.0 | 157.6 | 30.5 | 20.2 |
| March | 143.1 | 13.6 | 10.2 | 159.1 | 11.4 | 18.3 |
| April | 143.9 | 6.7 | 10.1 | 158.6 | -3.7 | 16.2 |
| May | 145.5 | 13.3 | 10.6 | 159.7 | 8.3 | 15.8 |
| June | 146.9 | 11.5 | 11.0 | 160.3 | 4.6 | 14.7 |
| July | 148.0 | 9.0 | 11.5 | 160.5 | 1.4 | 13.9 |
| August | 149.9 | 15.4 | 11.0 | 162.8 | 17.2 | 9.0 |
| September | 151.7 | 14.4 | 12.0 | 165.0 | 16.2 | 11.3 |
| October | 153.0 | 10.3 | 12.0 | 166.1 | 8.0 | 11.9 |
| November | 154.3 | 10.2 | 12.1 | 167.8 | 12.2 | 11.9 |
| December | 155.4 | 8.5 | 12.2 | 169.7 | 13.6 | 12.2 |

billion in 1974, and a decrease in real disposable income from $620 billion in 1973 to $603 billion in 1974.

Perhaps as a result of the deteriorating employment outlook and a concomitant rise in consumer pessimism, the pattern of falling real disposable personal income and rising real personal consumption expenditures in the second and third quarters ended abruptly in the last quarter of 1974. Despite the inflation-induced increase in nominal disposable personal income, nominal personal consumption expenditures recorded their largest percentage decrease since the second quarter of 1951 and the saving rate jumped from 6.6 percent to 8.5 percent. Accordingly, real personal consumption expenditures decreased $17.1 billion at an annual rate in the fourth quarter.

Real personal consumption expenditures were below the 1973 level in every quarter of 1974 and were down $12.2 billion for the year. This was the first peacetime year-to-year decrease in real personal consumption expenditures since the depression year of 1938 and the largest peacetime percentage decrease since 1932.

Major personal income components, change from previous quarter

| Item | 1974 II | 1974 III | 1974 IV[1] |
|---|---|---|---|
| | *Billion dollars* | *Billion dollars* | *Billion dollars* |
| Personal income | 22.1 | 33.6 | 18.2 |
| Wages and salaries | 17.6 | 17.8 | 5.8 |
| Manufacturing | 5.3 | 5.7 | -1.5 |
| Nonmanufacturing | 9.2 | 8.5 | 3.7 |
| Government | 3.1 | 3.6 | 3.5 |
| Other income | -2.3 | 8.5 | 5.5 |
| Transfer payments | 7.6 | 8.2 | 7.1 |
| Social insurance payments (minus) | .8 | .9 | .1 |
| Personal tax payments | 6.3 | 6.9 | 2.7 |
| Disposable personal income | 15.9 | 26.6 | 15.6 |
| Personal outlays | 28.7 | 32.7 | -4.3 |
| Personal savings | -12.9 | -6.0 | -19.9 |

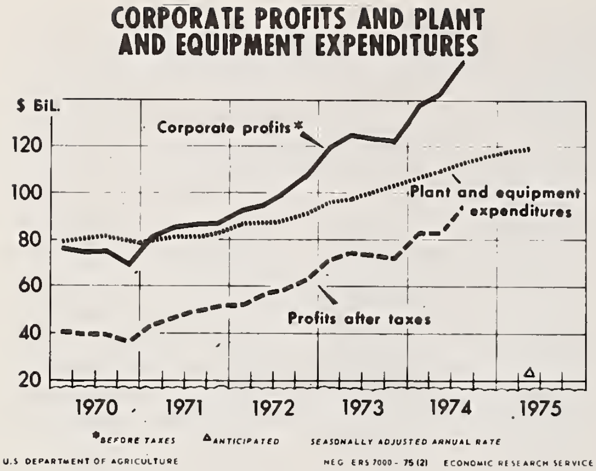
[1] Preliminary.

The decrease in consumer expenditures in the fourth quarter provides direct evidence that insufficient demand is becoming an important factor in the current recession, but the general weakness in consumer demand is complicated by structural difficulties. Regardless of improvements in consumer income, demand for the products of some industries which have large amounts of excess capacity and could readily expand production is not likely to return to historically normal levels in the foreseeable future. This is especially true of goods such as automobiles which are energy intensive in their utilization. The sluggish demand for these goods is partly a reflection of consumer pessimism concerning the availability and price of energy and there is little reason to expect an nearly improvement in the energy situation. Thus, general economic recovery is and will continue to be impeded by the need for a reallocation of productive resources to meet a changing composition of consumer demand.

### Investment Reflects Pessimism

Nominal gross private domestic investment increased from a $205.8 billion annual rate in the third quarter of 1974 to $207.6 billion in the fourth. Gross private domestic investment measured in 1958 dollars at an annual rate was down from $122.7 billion in the third quarter to $118.9 billion in the fourth. Although nominal gross private domestic investment declined only $0.5 billion in 1974 compared with 1973, real gross private domestic investment declined $11.8 billion.

Real business fixed investment, an important indicator of future productive capacity, decreased only marginally in 1974 as a result of unusual strength in the first and second quarters. But, in the




fourth quarter, it was $5.1 billion (at an annual rate) below the average 1973 level. Business fixed investment is sensitive to expectations concerning input costs and product demand and is therefore likely to remain weak at least through the first half of 1975.

The change in business inventories was up sharply from $8.7 billion at an annual rate in the third quarter to $14.4 billion in the fourth. This does not necessarily indicate a general overinvestment in inventories because all of the increase was attributable to the accumulation of unsold automobiles. However, inventory investment is likely to decline as businesses respond to lower consumer demand by cutting production.

Despite some easing of interest rates in the fourth quarter of 1974, real investment in residential structures at an annual rate declined another $3.2 billion. The steady decrease in real investment in residential structures throughout 1974 resulted in a 27 percent year-to-year decline from the 1973 level of $32.9 billion. Reflecting the general outlook for the first half of 1975, residential fixed investment will remain depressed.

### Unemployment Surges

Despite decreases in output in the first two quarters of 1974, the unemployment rate remained relatively stable as total employment edged upward slightly and labor force growth was slower than normal. A return to more normal growth in the labor force in the third quarter offset a slight increase in employment and sent the unemployment rate to 5.5 percent. In the fourth quarter, labor force growth was lower but employment dropped from 86.4 million to 85.7 million. Consequently, the unemployment rate increased 1 percent in the fourth quarter and reached 6.5 percent. In January, 8.2 percent of the growing labor force was unemployed.

Employment developments in November and December indicated that the recession was spreading throughout the economy. The number of employees on nonagricultural payrolls declined in more than three-fourths of all private industries in both months. Within the durable goods manufacturing group, December declines in industry employment were most significant in relation to total employment in primary metals, down 4.2 percent; electrical equipment, down 3.7 percent; transportation equipment, down 3.5 percent; and fabricated metals, down 3.3 percent. Similarly, the largest December employment declines within nondurable manufacturing occurred in rubber and plastics products, down 4.7 percent; apparel and other textile products, down 4.1 percent; and textile mill products, down 2.9 percent.

To a large extent, the employment outlook for the first half has been determined by past events. As producers continue to adjust production to recent demand developments, further widespread declines in employment can be expected, and the unemployment rate is likely to reach 9 percent by midyear. Stimulative government policies will probably result in some improvement in the employment picture in the second half, but employment in industries facing energy-sensitive demand will probably exhibit a sluggish response to stimulative government measures.

### Balanced Policy Likely

The 3.5 percent rate of growth in the money supply during the second half of 1974 played an essential role in bringing about the easing of inflation in the fourth quarter, but the mounting evidence that insufficient demand has become an element in the continuing recession has led to general agreement that government measures to stimulate demand are in order. While the details remain unclear, some form of a tax cut is likely in the near future.

The ultimate effect of any tax reduction will depend in part on the decisions of the Federal Reserve with respect to expansion of the money supply. In conditions of widespread unemployment and excess capacity, a somewhat easier monetary policy should not be inflationary. But the persistence of cost-push pressures suggests that a dramatic reversal in monetary policy would unleash a new inflationary wave. Indications are that the Fed will pursue a middle course. Monetary policy will accommodate a stimulative fiscal policy and be more expansionary than in the last half of 1974, but the rate of growth in the money supply is not likely to return to the extremely high 8 percent rate recorded in 1972/73.

# LIST OF TABLES

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